Progress of the Medium-Term Management Plan

Making steady progress to reach our management goals ahead of schedule

The concept behind the Medium-Term Management Plan

On the occasion of the management integration of Hankyu and Hanshin, the Group formulated and announced the six-year Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan (fiscal 2008–fiscal 2013), for which we established yearly adjusted estimates and implemented initiatives to achieve the plan's targets. This plan was intended to clarify the Group's vision for improving its enterprise value across the board in fiscal 2013, during which the Group completed such major projects as the rebuilding of the Umeda Hankyu Building.

Following the plan's implementation, however, the operating environment deteriorated in the wake of Lehman Brothers' collapse. This delayed improvements in the Group's financial standing and has unfortunately made it impossible to reach the initial goal of bringing down the interest-bearing debt/EBITDA ratio to around seven times during the period of the plan.

Nevertheless, in order to increase value along Group railway lines and shore up its financial standing—which is indispensable for maintaining sustainable growth—we decided in May 2012 to extend the Medium-Term Management Plan to fiscal 2016. This decision was made with the idea that despite initial targets being behind schedule, we must remain firm to the direction initially established by the plan. Based on this, we announced our renewed commitment to achieving the initial goal of improving the interest-bearing debt/EBITDA ratio to around seven times and, in turn, are diligently working to carry forward this plan.

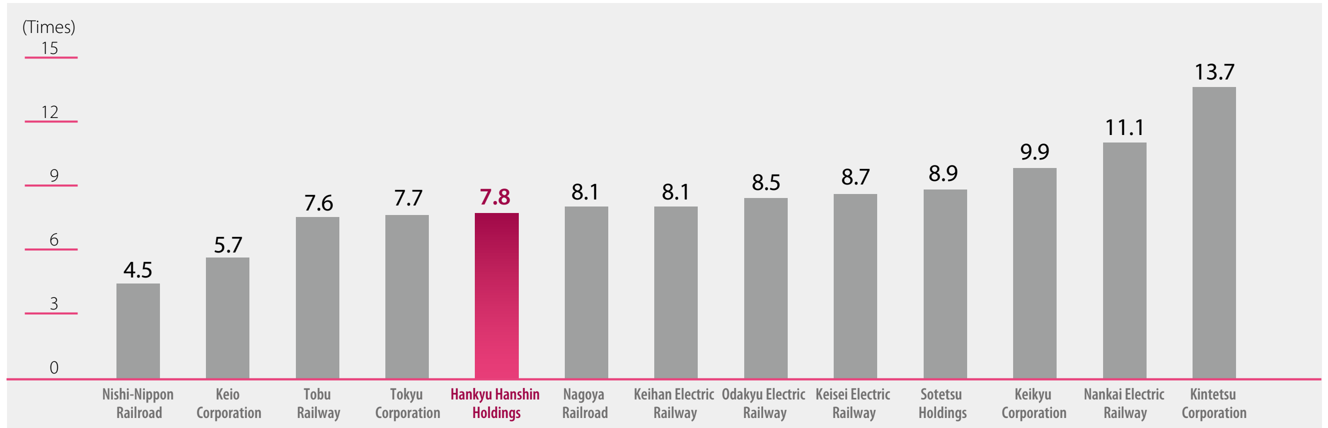
Why has the Group set the goal of improving the interest-bearing debt/EBITDA ratio to around seven times?

To answer this question, I will once again explain the management indicators that the Group is aiming for.

The Group's mainstay railway and real estate leasing businesses generate stable cash flows. Yet, these businesses are characterized by the need to own large amounts of fixed assets, which saddles the Group with a commensurate amount of interest-bearing debt. It is extremely difficult to pinpoint in a general way the ideal interest-bearing debt/ EBITDA ratio within the private railway sector in Japan.

However, in light of the current outstanding balance of interest-bearing debt exceeding ¥1 trillion, our business must have firm financial foundations that make it resistant to interest-rate fluctuation and other risks. One very basic benchmark in setting this ratio is to improve the interest-bearing debt/EBITDA ratio to a minimum level among other major private railway operating companies. As you can see from the figures below, this is how we arrived at a target of around seven times.

■ Interest-Bearing Debt/EBITDA Ratios for Major Listed Private Railway Operators (Fiscal 2013)



* Interest-bearing debt/EBITDA for each company has been calculated by Hankyu Hanshin Holdings Group.

Estimates adjusted from the Medium-Term Management Plan: fiscal 2016 forecast

Current estimates indicate that we will achieve our goals slightly ahead of schedule and forecasts have been adjusted accordingly.

Operating income for the fiscal 2016 target year is forecast to surpass the previous plan (¥83.0 billion) by ¥2.0 billion to ¥85.0 billion, reflecting currently robust railway operation revenue and higher rental income mainly from the Umeda Hankyu Building. In addition, interest-bearing debt is projected to shrink ¥20.0 billion compared with the previous plan (¥1 trillion) to ¥980.0 billion primarily thanks to a detailed review of investment amounts and periods intended to further upgrade our financial standing, extend operating cash flows and improve the financial account balance. As a result, the interest-bearing debt/EBITDA ratio in fiscal 2016 is expected to exceed the previous plan's target of 7.0 times to 6.8 times. We are steadily taking steps to reach these management goals as early as possible.

Over six years have passed since the management integration of Hankyu Holdings, Inc. and Hanshin Electric Railway Co., Ltd. in 2006. In light of changes in the environment in which each core business operates, certain core businesses have been restructured from fiscal 2014 onward.

■ Consolidated Performance and Key Performance Indicators during the Medium-Term Management Plan Period

(¥ billion)

(FY)	2008 Results*1	2009 Results	2010 Results	2011 Results	2012 Results	2013 Results*4	2014 Estimate	2016 Plan*4
Operating income	90.7	77.8	70.1	64.7	73.8	87.9 [78.0]	84.0	85.0 [83.0]
EBITDA	145.2 <143.2>*2	135.3	133.2	127.1	133.5	145.1 [137.0]	142.0	143.0 [142.0]
Effects of integration*3	2.2	4.6	7.1	7.9	8.8	9.7 [9.7]	—	—
Interest-bearing debt/EBITDA	8.8 times	9.4 times	9.6 times	9.8 times	8.9 times	7.8 times [8.5 times]	7.7 times	6.8 times [7.0 times]
Interest-bearing debt	1,271.1	1,275.6	1,282.6	1,251.7	1,183.6	1,126.6 [1,160.0]	1,100.0	980.0 [1,000.0]
Debt/equity ratio	2.7 times	2.8 times	2.7 times	2.6 times	2.3 times	2.0 times [2.2 times]	1.9 times	1.5 times [1.6 times]
ROE	0.1%	4.4%	2.3%	3.8%	7.9%	7.4% [6.0%]	7.5%	7.2% [6.5%]

*1 The department store business (The Hanshin Department Store, Ltd. (currently Hankyu Hanshin Department Stores, Inc.) and its four subsidiaries ("Hanshin Department Store Group")) was treated as a consolidated subsidiary up to the first half of fiscal 2008.

*2 Figures in < > exclude those of the department store business (the former Hanshin Department Store Group)

*3 Calculations based on EBITDA. As some time has passed since the management integration between the former Hankyu Holdings Group and Hanshin Electric Railway Group, the integration boost effect is factored in only up to fiscal 2013.

*4 Figures in [ ] are those announced in May 2012 for the previous plan.

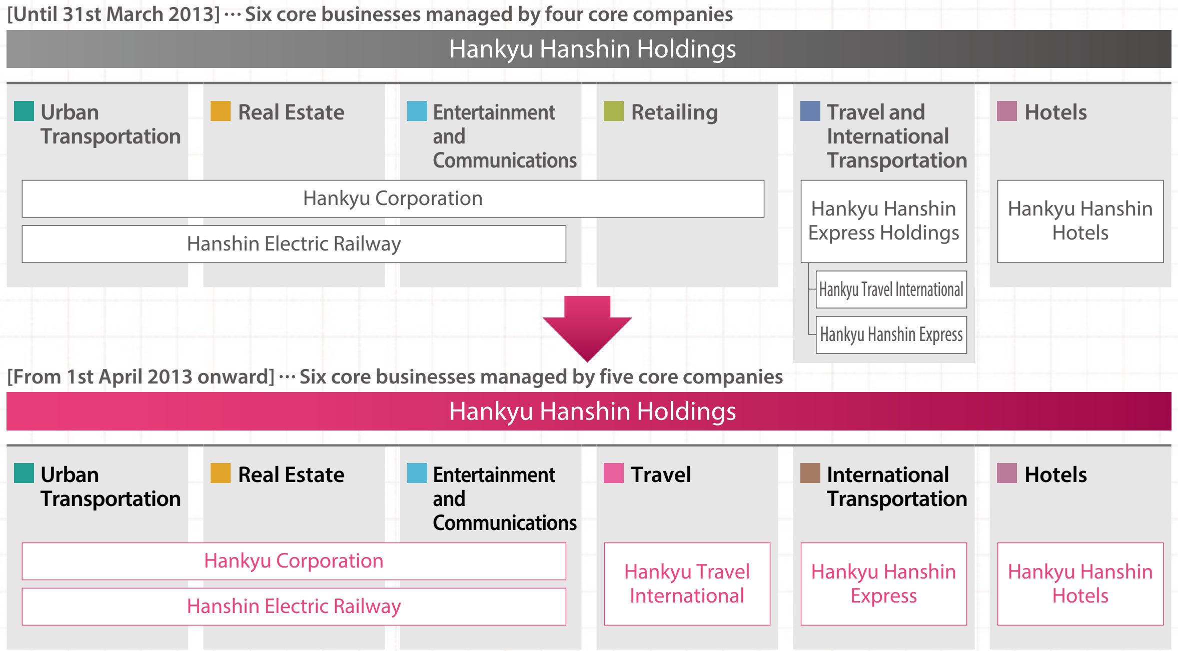
Revising of Certain Core Businesses

Until fiscal 2013, the Group was comprised six core businesses: "Urban Transportation," "Real Estate," "Entertainment and Communications," "Travel and International Transportation," "Hotels" and "Retailing." The businesses are operated by four core companies: Hankyu Corporation, Hanshin Electric Railway Co., Ltd., Hankyu Hanshin Express Holdings Corporation and Hankyu Hanshin Hotels Co., Ltd., under the leadership of the Company, which manages the Group.

Over six years have passed since the management integration of Hankyu Holdings, Inc. and Hanshin Electric Railway Co., Ltd. in 2006. In light of changes in the environment in which each core business operates, certain core businesses have been restructured from fiscal 2014 onward. This restructuring is intended to further improve growth in all six core businesses and enhance enterprise value throughout the Group. Details are as follows.

- Regarding Travel and International Transportation, we established the intermediate holding company, Hankyu Hanshin Express Holdings Corporation, to smoothly integrate the travel and international transportation businesses of both the Hankyu and Hanshin groups. Having achieved this goal, however, we abolished this system and positioned Hankyu Travel International Co., Ltd. and Hankyu Hanshin Express Co., Ltd. as new core companies to formulate further growth strategies. In addition, we have separated the Travel Business and International Transportation Business into independent core businesses to strengthen competitiveness and increase earnings.
- The core Retailing Business segment* has been eliminated, and its operations have been transferred to the Urban Transportation Business. Through this integration, we will continue building on current achievements (which include revitalising and improving the attractiveness of railways by retaining consumption along rail lines within the Group and operating a variety of stores). In addition, this restructuring will enhance the competitiveness and attractiveness of station interiors and surrounding areas in line with the progressive development of the Umeda area.
- Regarding Hankyu Corporation's advertising operations* (which forms part of the Entertainment and Communications Business), we will promote the more effective use and management of transportation advertising based on the integrated operations of the Urban Transportation Business.

* A portion of the Retailing Business segment and Hankyu Corporation's advertising operations have been transferred to the Real Estate Business.



The Group's direction and medium- to long-term management strategies

In light of forecasts that Japan will enter a period of population decline, we are working to maintain future growth by formulating management strategies for the next stage that factor in the following 10 to 20 years.

As mentioned previously, the current Medium-Term Management Plan (until fiscal 2016) has established a vision for the Group that we are steadily progressing toward in an effort to achieve the management goal of improving interesting-bearing debt/EBITDA ratio at around seven times by fiscal 2016. Fiscal 2014 has therefore been positioned as a year for making a vigorous push to realise this management goal and marks the beginning of an investigation into the formulation of a new medium-term management plan set to be implemented in fiscal 2017.

To date, a pillar of the Group's management strategy has been: "build good rail lines, build good communities." Since our foundation, we have been operating real estate and leisure-oriented businesses along our railway lines. Having received high ratings for increases in value along our railway lines as a result of these synergies, the population living along these lines is steadily growing. Accordingly, the Group is working to maintain continuous growth by first improving value along its railway line—the Group's most important operating fundamental—and then by enhancing the attractiveness of the Umeda area, a vital initiative for this growth-driving area that I will discuss later.

In light of Japan's lower birth-rate and aging population, however, we are fully aware that the number of people living along our rail lines is likely to decrease and the Kansai economy is expected to contract over the medium- to long-term. Given these severe operating forecasts, we will work to maintain steady growth well into the future by increasing value along our railways as well as expanding businesses in areas beyond those served by our lines. For example, one of the options available to us is expanding businesses in the Tokyo metropolitan area, a large market, as well as Asia and other overseas regions that are growing at a significant rate. Based on this perspective, we will fully examine new management directions for the next 10 to 20 years. A summary of this investigation will form the basis of the next medium-term management plan and, in turn, our policy for continuous growth in the years ahead.

Medium-Term Management Plan

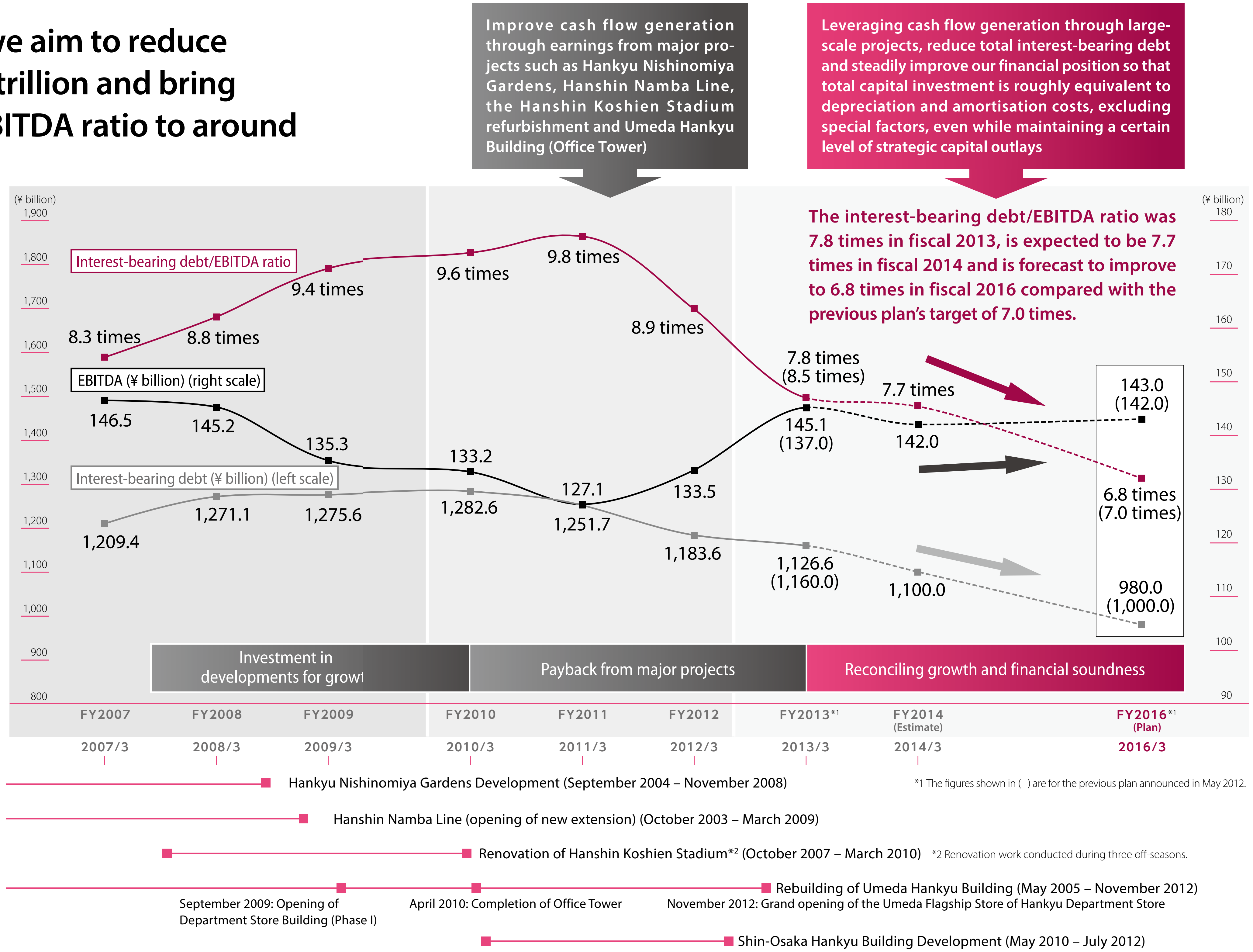
The Group's Medium-Term Vision

Improving our financial position, we aim to reduce interest-bearing debt to below ¥1 trillion and bring down the interest-bearing debt/EBITDA ratio to around seven times as soon as possible

The Group is building enterprise value through major projects such as the rebuilding of Umeda Hankyu Building and the Hanshin Namba Line, as well as following a basic policy of improving Group financial standing through effective use of returns from these major projects. As part of this endeavour, we initially set a target of improving the interest-bearing debt/EBITDA ratio to around seven times by fiscal 2013 in the Medium-Term Management Plan announced in 2007.

However, amid deteriorating operating conditions accompanying the economic recession that occurred during the period of this plan, forecasts indicated that this target could not be reached by fiscal 2013. Consequently, we announced in May 2012 that we would extend the previous plan to fiscal 2016. Accordingly, we positioned the three years between fiscal 2014 and fiscal 2016 as a period to steadily improve our financial position and once again take steps to achieve our initial target.

Based on current estimates, we have set the policy of achieving the previous plan's initial target (improve interest-bearing debt/EBITDA ratio to around seven times) as soon as possible between fiscal 2014 and fiscal 2016.

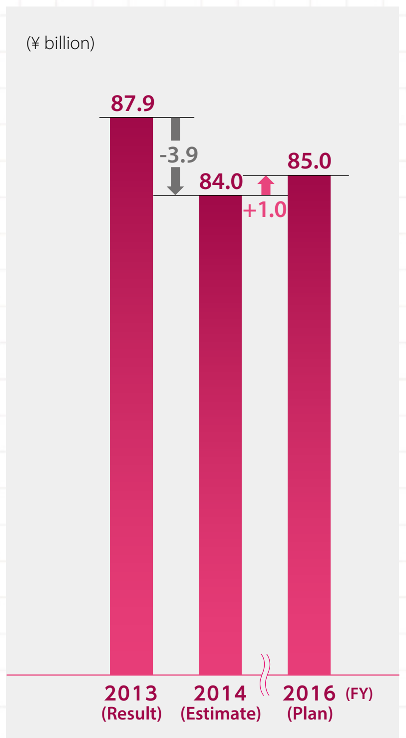


* Project start times are as of works commencement. Also, finish times are project completion dates (completion of A and B blocks for Osaka Station North District (*Umekita*) Phase I Development Area).

Operating income

Hikes in electricity rates are projected to drive down operating income by approximately ¥1.9 billion in fiscal 2014 and ¥2.5 billion in fiscal 2016. In addition, there are concerns over worsening consumer attitudes in light of an increase in the consumption tax. Nevertheless, overall operating income in fiscal 2014 is forecast to be ¥84.0 billion, only a slight decrease compared with ¥87.9 billion in fiscal 2013, and then increase to ¥85.0 billion in fiscal 2016, up ¥2.0 billion over the previous plan's target of ¥83.0 billion. This mainly reflects revisions to transportation revenue based on current conditions and an increase in rental income from the Umeda Hankyu Building.

Fiscal 2013 ⇒ 2014 ⇒ 2016 Operating Income



Fiscal 2013 (Result) ⇒ Fiscal 2014 (Estimate) -¥3.9 billion

[Major factors for changes in operating income]

- Increase in costs in each business due to higher electricity rates
- Increase in maintenance costs in the railway business
- Impact of intensifying competition on existing rental facilities
- Decrease in the number of performances in the theatre business other than the Takarazuka Grand and Tokyo Takarazuka theatres and increase in costs associated with the Takarazuka Revue's centennial (performance and advertising costs)
- Increase in office occupancy rates in Umeda Hankyu Building and department store full-year occupancy

Fiscal 2014 (Estimate) ⇒ Fiscal 2016 (Plan) +¥1.0 billion

[Major factors for changes in operating income]

- Consolidate and improve earnings capability by strengthening real estate leasing management models and promoting cost efficiency
- Boost the occupancy rate of office buildings including Umeda Hankyu Building
- Expand the cable television business and information technology services
- Increase in depreciation and amortisation costs in the railway business
- Decrease in earnings in the condominium subdivision business (although high income levels are forecast for fiscal 2014, profitability is expected to decline in fiscal 2016 due largely to a rise in the consumption tax rate)
- Fall in rental income (reduced leasable area) accompanying the commencement of the Umeda 1-1 Project

Improve our financial position

In order to improve our financial position, we will, as mentioned previously, maintain operating cash flows at certain levels; curb capital investment to be roughly equivalent to depreciation and amortisation costs, excluding special factors*1; factor in improvements in the financial account balance; and appropriately reduce interest-bearing debt by using surplus funds. Through these measures, we forecast interest-bearing debt of ¥1,100.0 billion in fiscal 2014, which is then expected to decrease to ¥980.0 billion in fiscal 2016, ¥20.0 billion below the previous plan's target of ¥1 trillion.

As a result, interest-bearing debt/EBITDA ratio is projected to be 7.7 times in fiscal 2014 and steadily improve to 6.8 times in fiscal 2016 compared with the previous plan's target of 7.0 times.

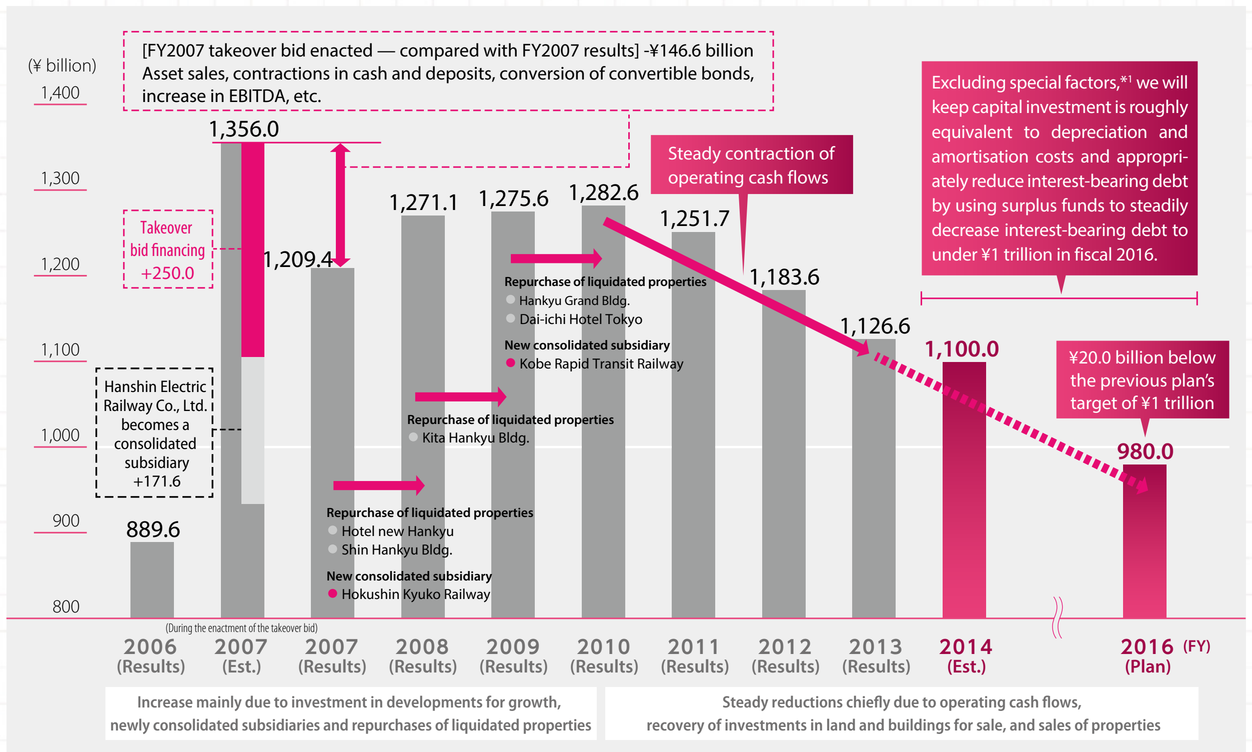
■ Capital Investment and Depreciation and Amortisation

(¥ billion)

Capital investment	FY2008-2010 Results	FY2011-2013 Results	FY2014-2016 Plan
Three-year total	380.0	183.0	196.0
Annual average	127.0	61.0	65.0
Depreciation and amortisation	**FY2008-2010 Results**	**FY2011-2013 Results**	**FY2014-2016 Plan**
Three-year total	167.0	171.0	166.0
Annual average	55.7	57.0	55.3

*1 Capital investment between fiscal 2014 and fiscal 2016 (three-year total) includes property swaps with Hankyu REIT Inc. Excluding the impact of this, total investment is expected to be approximately ¥165.0 billion, roughly equivalent to depreciation and amortisation costs.
In addition, capital investment in fiscal 2014 is expected to total ¥30.8 billion (acquisition of assets held by Hankyu REIT) due to asset swaps undertaken with Hankyu REIT. However, the Group's real debt burden from asset swaps is forecast to be held to approximately ¥8.0 billion primarily because of asset sales accompanying asset swaps of ¥18.3 billion and the transfer of deposits for acquired assets.

Outstanding Balance of Interest-Bearing Debt (Until Fiscal 2016)



Urban Transportation

Major Businesses

☐ Railway operations:
Hankyu Corporation, Hanshin Electric Railway, Nosé Electric Railway, Kita-Osaka Kyuko Railway, Hokushin Kyuko Railway, Kobe Rapid Transit Railway

☐ Automobile business (bus, taxi):
Hankyu Bus, Hanshin Bus, Hankyu Kanko Bus, Osaka Airport Transport, Hankyu Denen Bus, Hankyu Taxi, Hanshin Taxi

Snapshot

Performance in FY2013

Revenues from Operations
¥193.6 billion (+0.5%)

Operating Income
¥34.7 billion (+7.3%)

Priority Issues

1 Provide high-value customer services (increase value along Group railway lines)

- Improve the appeal of our transportation services and products
- Expand our networks and catchment areas
- Offer convenience and comfort through services at stations and stores as well as improve customer communication

2 Ensure low-cost operations (pool and improve technology and know-how)

3 Provide safe, high-quality transportation services that fully justify public trust

- With ongoing major projects and grade separation (track elevation) works underway, as well as barrier removal at stations, this segment is committed to providing safe transportation services

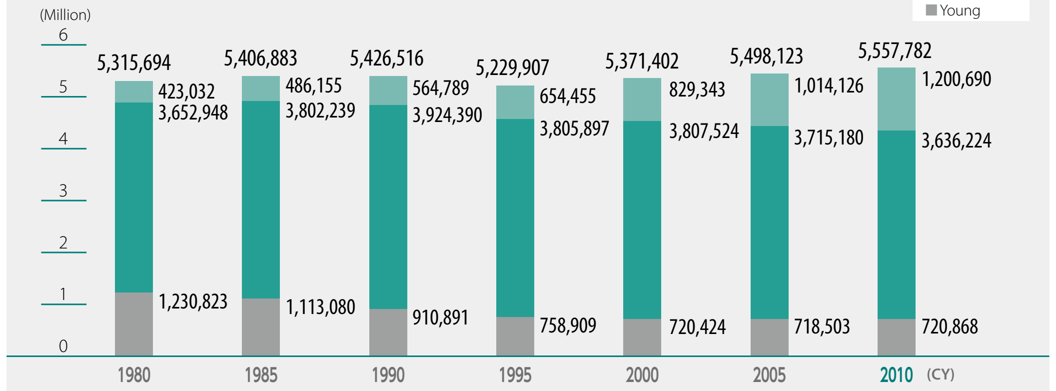
Key Facts and Business Environment

Population growth continues in areas served by our lines

In recent years, the population of the Kansai area has been in decline, with a falling birth-rate and a rising proportion of elderly people. The official Population Census of Japan shows that the population between the ages of 15 and 64—the working-age generations—has already begun to decline (please see Figure 1).

Despite this severe external environment surrounding the Urban Transportation Business, areas served by our lines are popular and populations here have maintained gradual growth momentum since the trough of 1996, the year after the Great Hanshin (Kobe) Earthquake (please see Figure 2).

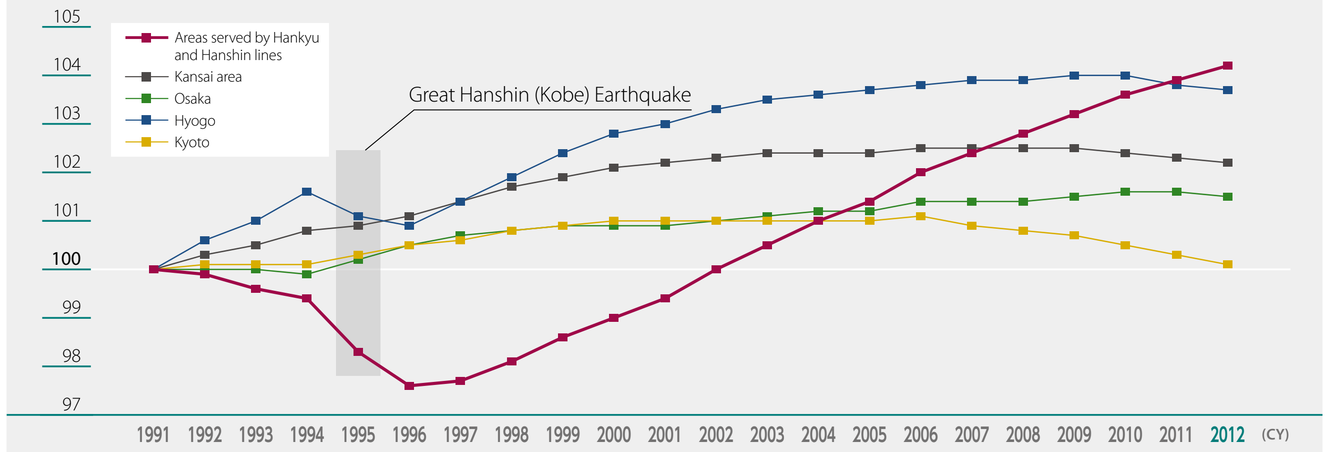
Figure 1: Population by Age Group, along Hankyu and Hanshin Lines (Population Census of Japan)



Source: Compiled by the Group, based on data from *2010 Population Census of Japan*, issued by the Ministry of Internal Affairs and Communications.

* Tallies do not add up to the total at the top for each year as age group is not known in many cases. Unknowns account for the difference.
* Areas served by Hankyu and Hanshin lines are as defined in Figure 2.

Figure 2: Population Trends in Areas Served by Hankyu and Hanshin Lines (1991=100)



Source: Compiled by the Group based on data from Toyo Keizai, Inc.'s *Local Economy Directory* and the Ministry of Internal Affairs and Communications *Basic Resident Register*

Areas served by Hankyu and Hanshin lines:
Below are lists of areas with Hankyu Corporation and Hanshin Electric Railway stations (including tier 2 operators).
Osaka Prefecture: Osaka City (Fukushima, Konohana, Nishi, Naniwa, Nishi-Yodogawa, Higashi-Yodogawa, Yodogawa, Kita and Chuo, out of a total of 24 wards); and Toyonaka, Ikeda, Suita, Takatsuki, Ibaraki, Minoh, Settsu cities and Shimamoto town
Hyogo Prefecture: Kobe City (Higashi-Nada, Nada, Hyogo, Nagata and Chuo, out of a total of 9 wards); and Amagasaki, Nishinomiya, Ashiya, Itami, Takarazuka and Kawanishi cities
Kyoto Prefecture: Kyoto City (Nakagyo, Shimogyo, Ukyo, Nishikyo, out of a total of 11 wards); and Muko and Nagaokakyo cities and Oyamazaki town

Measures to increase the appeal of areas along our lines

In order to achieve continual growth under these severe operating conditions, the Group is encouraging greater public transport use by upgrading station facilities and expanding networks. Looking ahead, we will continue to improve standards of convenience for customers and make our railway lines more appealing by expanding and improving all our general transportation services.

▶ Improvement of Hankyu Umeda Station facilities: Ongoing modernising works at Hankyu Umeda Station, one of Japan's largest private railway terminals

About 40 years have passed since completion in November 1973 of the relocation of the Hankyu Umeda Station away from its site near the current Umeda Hankyu Building. Hankyu Corporation has been undertaking modernising works at Hankyu Umeda Station since fiscal 2013, with completion scheduled for the end of fiscal 2015. The aim is to give the station a completely new, integrated, more upmarket look and make it the "face" of the Umeda area of Osaka, where developments are underway such as the rebuilding of the Umeda Hankyu Building and the Phase I Development at Osaka Station North District (*Umekita*).

The modernising works will involve the creation of five spaces at Hankyu Umeda Station, titled "Approach," "Gate," "Lobby," "Stage," and "Galleria," with the use of theatre lighting to achieve a sense of drama. The aim is to create a distinctive theatre-like atmosphere.

Upper right: Artist's impression of "Gate"
Lower left: Artist's impression of "Stage"

▶ Renovations complete at Hanshin Sannomiya Station, with new "*Ekinaka*" in-station stores open

Major renovations at Hanshin Sannomiya Station that began in 2007 were completed five and half years later in March 2013.

The station was opened as an underground station in 1933. But because there was only one wicket on the western side, it tended to get crowded during rush-hour. The station also lacked fire-prevention and barrier-free facilities and had long suffered from clumsy connections between lines within the station.

Major improvement works at Hanshin Sannomiya Station were launched in October 2007, using subsidies for projects that enhance urban railway convenience. The aim was to improve user convenience and enhance its hub function ahead of the March 2009 launch of direct Hanshin Electric Railway and Kintetsu Corporation shared-line services from Sannomiya to Nara, using the Hanshin Namba Line.

In the improvement works, we built new eastern wickets that enable access to Port Liner, JR lines, and the peripheral commercial facility M-INT Kobe. In addition, we remodeled the existing western wicket, redid the wiring throughout the structure, widened the platforms, and built new elevators and escalators, which improved connection convenience and realised a barrier-free facility. We also enhanced station information conveyance capabilities by installing the Hanshin Train Service Centre as well as completely remodeled the Kobe's Sannomia Station gateway with the opening of the new SCRA Sannomia commercial facility at the western wicket inside the station.

The western wickets of Hanshin Sannomiya Station

Performance for the Fiscal 2013

Achieved rises in revenue and earnings thanks mainly to a recovery from the Great East Japan Earthquake; the grand opening of the Hankyu Department Store's Umeda Flagship Store; and steady transportation revenue supported by increases in the population living along Hankyu and Hanshin lines

In the railway business, the Hankyu Corporation is continually working to upgrade and improve the attractiveness of its railway facilities. These include the aforementioned renovations at the Hankyu Umeda and Hanshin Sannomiya stations, the upgraded central wicket of the Hankyu Kawaramachi Station in March 2013 and the opening of the Hankyu Tourist Information Center, KYOTO. In addition, Hankyu Corporation began selling to overseas customers the HANKYU TOURIST PASS for all Hankyu rail lines and Hanshin Electric Railway started marketing the Hanshin-Kintetsu IC Commuter Pass jointly with Kintetsu Corporation. At the same time, the Group undertook various initiatives to attract customers along its rail lines. Revenues from operations in the railway business overall increased 0.7%, or ¥969 million, year on year to ¥145,927 million despite a decrease in the number of business days caused by 2012 being a leap year. This result was mainly attributable to a recovery from a business downturn in the previous fiscal year as customers refrained from going out following the Great East Japan Earthquake; the grand opening of the Hankyu Department Store's Umeda Flagship Store; and steady transportation revenue supported by increases in the population living along Hankyu and Hanshin lines.

Furthermore, measures were taken to improve customer convenience in the bus and taxi business, including commencing the *hanica* IC card, which can be used for all regular routes operated by Hankyu Bus, Hanshin Bus and Hankyu Denen Bus. However, revenues from operations decreased 1.1%, or ¥503 million, year on year to ¥46,979 million.

As a result of the above, revenues from operations in the Urban Transportation Business overall improved 0.5%, or ¥913 million, year on year to ¥193,631 million. Moreover, operating income increased 7.3%, or ¥2,369 million, to ¥34,711 million primarily due to decreases in depreciation and amortisation expenses.

Hankyu Corporation and Hanshin Electric Railway: Performance Results

		Fare revenues (¥ million)*				Passenger volumes (thousands)*			
		FY2013	FY2012	Change	%	FY2013	FY2012	Change	%
Hankyu	Other tickets	60,749	60,268	481	0.8%	308,716	306,349	2,366	0.8%
	Commuter pass	30,391	29,922	469	1.6%	306,607	302,282	4,324	1.4%
	Total	91,141	90,191	950	1.1%	615,324	608,632	6,691	1.1%
Hanshin	Other tickets	19,669	19,422	247	1.3%	110,385	109,284	1,100	1.0%
	Commuter pass	10,740	10,623	117	1.1%	110,748	109,275	1,472	1.3%
	Total	30,410	30,045	364	1.2%	221,133	218,560	2,573	1.2%

* Sum of tier 1 and tier 2 operators for both Hankyu and Hanshin

Real Estate

Major Businesses

☐ Real estate leasing and development*:
Extensive property-holdings, mainly along Hankyu and Hanshin lines (for details of major properties, please see page 49)
Major companies: Hankyu Corporation, Hanshin Electric Railway, Hankyu Realty

☐ Real estate sales:
Subdivision and sale of residential land lots and sale of condominiums and single-family housing, mainly along Hankyu and Hanshin lines. In recent years, also focused on the sale of condominiums in the Tokyo area.
Major companies: Hankyu Corporation, Hanshin Electric Railway, Hankyu Realty

☐ Other real estate businesses:
Promote property management, building maintenance and other building operation and management services as well as real estate fund and REIT businesses
Major company: Hankyu Corporation, Hanshin Electric Railway, Hankyu Hanshin Building Management, Hankyu REIT Asset Management

* Classification changes in major businesses
Included in other real estate businesses until fiscal 2013, the real estate development business was combined with the real estate leasing business to form the real estate leasing and development business from fiscal 2014 onward.

Snapshot

Performance in FY2013

Revenues from Operations
¥196.7 billion (+11.7%)

Operating Income
¥37.0 billion (+27.0%)

Priority Issues

1 Enhance the appeal of and revitalise Umeda and other areas served by our lines

- Steadily promote the Umeda 1-1 Project (Dai Hanshin Building and Shin Hankyu Building rebuilding projects)
- Formulate and advance new development projects and systematically implement facility reconstruction along rail lines to enhance the value of Hankyu and Hanshin lines

2 Undertake measures to strengthen organisations and expand operations in the real estate leasing business

- Improve the profitability of the Umeda Hankyu Building and GRAND FRONT OSAKA
- Consolidate and improve profitability by strengthening management models while optimising costs

3 Agile responses attuned to changes in the subdivision business environment

- Planning and development of condominiums tailored to customer needs
- Business promotion and sales focusing on the impact of raising consumption tax rates
- Develop communities of detached single-family town houses and steadily market residential land-lots (Yamatadai, Nakajima and Saito)
- Maintain supply network and aggressively obtain business opportunities in the Tokyo area while increasing recognition of *Geo* brand condominiums and Hapia single family housing

4 Further expand the Group's Real Estate Business through the stable operation of real estate funding and REIT businesses

- Pursue external growth of the Real Estate Business through linkage with Hankyu REIT
- Expand fee-based revenues that include asset and property management

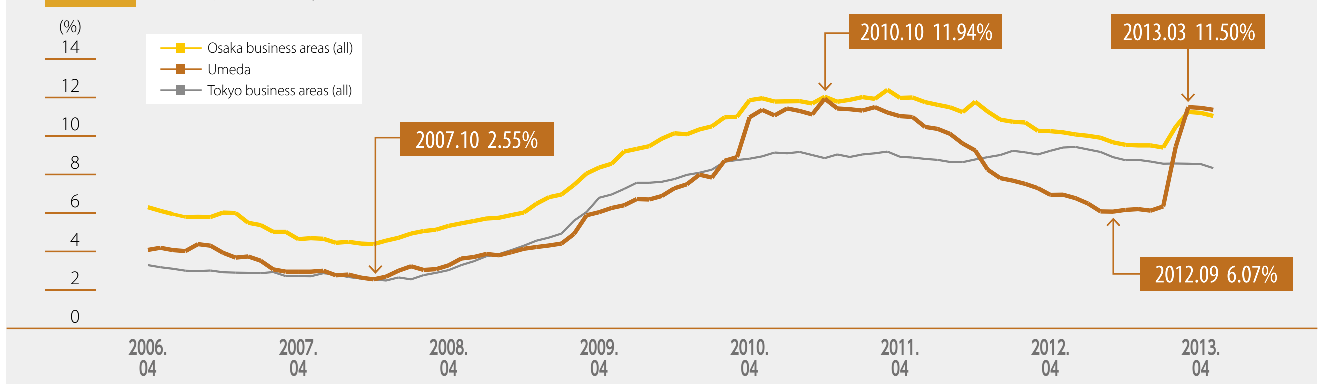
Key Facts and Business Environment

Recovery in the leasing market will take time

Most revenues and operating income in the Group's Real Estate Business are generated by the real estate leasing business, which contributes to stable cash flow. The Group has one of the largest rental real estate portfolios of any private rail company, with many properties located near Hankyu and Hanshin lines (for details, please see page 49). Overall rentable area operated by the Group was approximately 1.7 million m^2 (as of 31st March 2013). Of this total, approximately one half, or 800,000m^2 (70% being commercial facilities and the rest office facilities) are concentrated in the Umeda area, the heart of the Kansai economy, where the Group has a large number of very competitively located rental properties (near the Umeda stations of both Hankyu and Hanshin lines as well as JR Osaka Station (please see page 31 for detailed map of the Umeda area)).

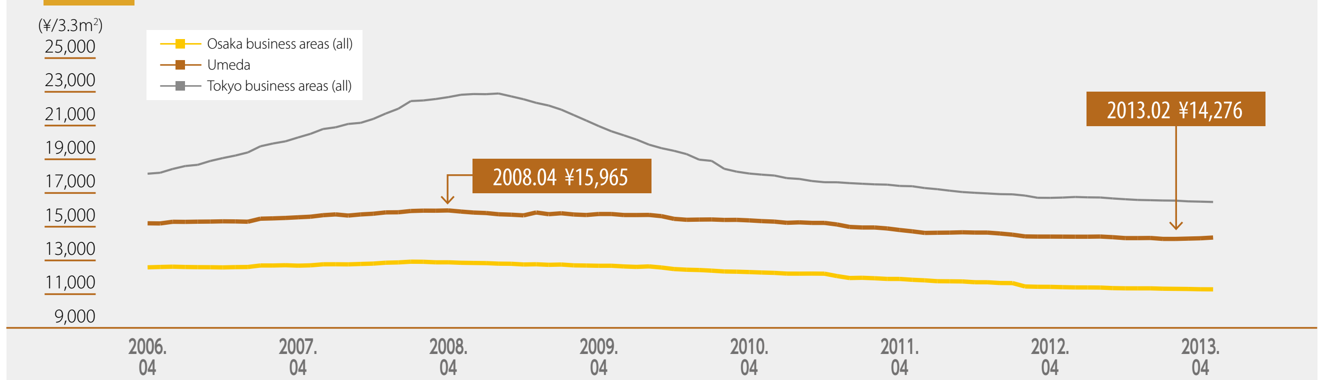
Looking at the current market for rentable office space in the Umeda area, average vacancy rates for office buildings bottomed out in October 2007 but are still trending at a high level. This reflects the release onto the market of large numbers of new buildings in the Umeda area between 2010 and 2013. Nevertheless, vacancy rates have showed signs of improvement from October 2010 onward as tenants relocated from other districts, as well as large-scale business relocations accompanying mergers and corporate consolidations. Looking at the current situation, however, a return to full-fledged improvement is expected to take time as the vacancy rate has risen once again. This reflects ongoing vacancies in the GRAND FRONT OSAKA following its construction (see Figures 1 and 2 for average vacancy rates and average rent levels).

Figure 1: Average Vacancy Rates at Office Buildings (Osaka and Tokyo business areas)



Source: Miki Shoji, *Latest trends in the Office-building market*
* The main factor for the significant increases in vacancy rates in the Umeda area and Osaka's business districts overall from December 2012 to April 2013 is the opening of GRAND FRONT OSAKA.

Figure 2: Average Rents at Office Buildings (Osaka and Tokyo business areas)



Source: Miki Shoji, *Latest trends in the Office-building market*

Accordingly, the environment surrounding the office leasing business remains severe and the future is uncertain. As explained earlier, the business environment surrounding the real estate leasing market remains challenging. However, thanks to the very competitive locations of our major rental office buildings close to the Hankyu and Hanshin Umeda stations in central Umeda, we can expect relatively stable earnings on the back of steady demand and rent levels even under such difficult conditions. Regarding commercial facilities, we forecast competition to become increasingly severe as major commercial facilities continue opening in the Umeda area. However, Group commercial facility-related sales currently remain on par with the previous fiscal year. This is attributable to renovation and major store reshuffling in fiscal 2013 at key Group facilities (Hankyu Sanban Gai Shopping Centre, HEP FIVE, Hankyu 32Ban Gai (restaurant floor of Hankyu Grand Building) and HERBIS PLAZA) as well as a rise in the number of visitors to the Umeda area on the whole.

Looking ahead, in the Umeda area, the Group's most important business base, competition in the fields of office buildings and commercial facilities is likely to intensify as major new properties come on the market. However, we will enhance profitability and optimise costs by strengthening management systems in the real estate leasing business and improve tenant relations. As the market leader of the Umeda area, we will also increase the competitiveness of the properties we own and take measures to improve the appeal and customer-drawing power of the entire district.

Promote new large-scale development projects

The completion of the Umeda Hankyu Building and GRAND FRONT OSAKA undertaken during the Group's Medium-Term Management Plan has drastically transformed the Umeda area.

Planning to further expand the real estate leasing business as well as enhance the attractiveness of and revitalise the Umeda area, we will commence the new large-scale development project, Umeda 1-1 Project. This project involves the rebuilding of the Dai Hanshin Building (in which the Hanshin Department Store Umeda Flagship Store is located) and the adjacent office building, Shin Hankyu Building, as an integrated complex. We will undertake this project with the aim of completing it by 2023.

For details of the following major projects, please see the Special Feature section from page 30 onward).

- **Rebuilding of Umeda Hankyu Building Project**
- **GRAND FRONT OSAKA**
  (Osaka Station North District (*Umekita*) Phase I Development Area Project)
- **Umeda 1-1 Project**
  (Dai Hanshin Building and Shin Hankyu Building Rebuilding Project)

GRAND FRONT OSAKA

Umeda Hankyu Building

Subdivision business continues to enjoy robust sales

In the subdivision business, we market condominiums, residential land lots, and single family houses. The core business is *Geo*-branded condominiums, supplied as high value-added properties situated in excellent locations, mainly in areas along Hankyu and Hanshin lines and in the Kansai and Tokyo areas. With *Geo*-branded condominiums, the focus is on quality and functionality, and quality management is strict. We use an integrated framework spanning development, sales, and management. The *Geo* marque rates highly in market research into condominium brand image.

The number of individual condominium units supplied in 2012 stood at 45,602 in the Tokyo area (up 2.5% year on year). This minimal increase is attributable to a loss of momentum in market recovery at the beginning of autumn in spite of an expected rebound following the Great East Japan Earthquake. In the Kansai area, however, the number of individual condominium units supplied in 2012 was 23,266 (up 15.1% year on year), a significant jump over the previous fiscal year, because of the ongoing supply of large-scale condominiums. Under these circumstances, the combined number of units supplied by the Group in the Tokyo and Kansai areas was 1,590, ranking 12th (3rd in the Kansai area) in nationwide condominium supply rankings.

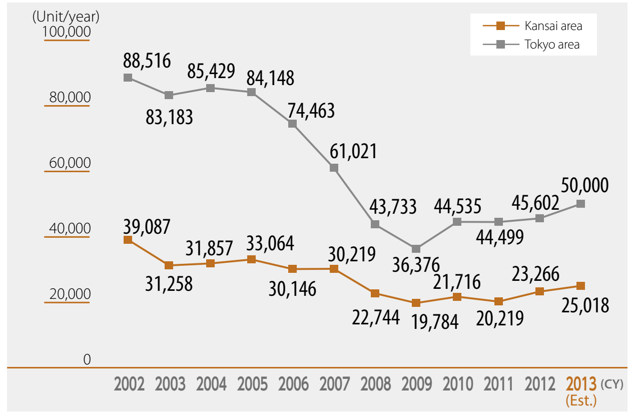
The number of condominium units forecast to be supplied to the market in 2013 is 50,000 in the Tokyo area (up 9.6% year on year) and 25,000 in the Kansai area (up 7.5% year on year). Factors behind these significant year-on-year upward projections include the government's continued measures to encourage home buying, including reduced tax rates on mortgage loans, and a growing supply of units to meet anticipated rush demand ahead of the hike in the consumption tax.

In the first half of 2013, the average rate of conclusion of a sales contract in the first month after a condominium comes on the market was 78.8% in the Tokyo area and 80.4% in the Kansai area, both above the generally employed benchmark level of 70% for condominium sales. This indicates that the condominium market is continuing to experience firm sales.

Looking ahead, we expect new home-purchase incentives and other measures to continue generating firm demand despite concerns over lower consumer confidence arising from higher consumption taxes. Against this backdrop, the Group is expected to enjoy robust sales for the foreseeable future, with customers appreciating its supply of high-quality properties situated in excellent locations.

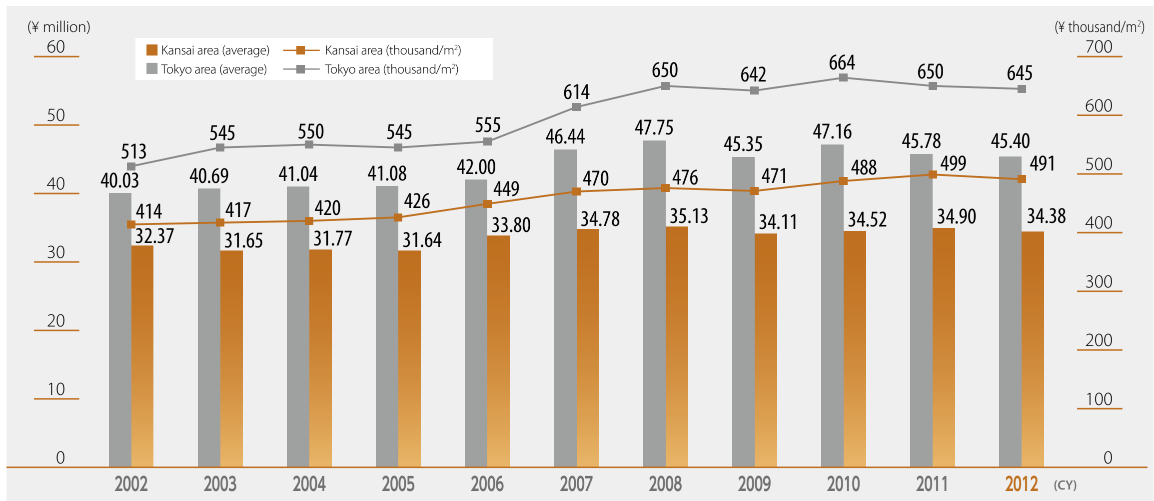
Note: The above figures are based on research by Real Estate Economic Institute Co., Ltd. Reference was made to *National Condominium Market Trends 2012*, *Condominium Supply Forecasts in the Tokyo Metropolitan and Kansai Areas 2013*, and *Condominium Market Forecasts in the Tokyo Metropolitan and Kansai Areas in the First Half of 2013*.

New Supply of Condominiums (Tokyo and Kansai areas)



Source: Real Estate Economic Institute Co., Ltd.'s *National Condominium Market Trends 2012*, and *Condominium Market Forecasts in the Tokyo Metropolitan and Kansai Areas in the First Half of 2013*

Condominium Prices (Tokyo and Kansai areas)



Source: Real Estate Economic Institute Co., Ltd.'s *National Condominium Market Trends 2012*

Performance for the Fiscal 2013

Revenues and earnings rose mainly due to higher condominium sales and occupancy at Umeda Hankyu Building Office Tower and the opening of Department Store Building (Phase II)

In the real estate leasing business, revenues from operations decreased 0.5%, or ¥441 million, year on year to ¥81,389 million, reflecting severe operating conditions. This result occurred despite efforts to boost the competitiveness and maintain occupancy rates of commercial facilities and office buildings held by each Group company in the Umeda area, including re-launching of certain sections of Hankyu Sanban Gai Shopping Centre and HERBIS PLAZA.

Condominium sales in the subdivision business in the Kansai area included units of the *Geo* Tower Takatsuki Muse Front (Takatsuki City, Osaka), *Geo* Branz Saito Hidamarinooka (Minoh City, Osaka) and *Geo* Grande Teramachi Oike (Nakagyou-ku, Kyoto); and in the Tokyo area, *Geo* Nishi Shinjuku Twin Residence (Shinjuku-ku, Tokyo) and *Geo* Suginami Takaido (Suginami-ku, Tokyo).

In residential land-lot subdivisions, we marketed units including Hankyu Takarazuka Yamatedai (Takarazuka, Hyogo Prefecture), Saito/Minoh Garden Terrace (Minoh City, Osaka), HAPIA Garden Itayado/Kobe Yamanote (Nagata-ku, Kobe) and HAPIA Garden Denenchofu (Ota-ku, Tokyo). As a result, condominium unit sales increased* significantly and, in turn, revenues from operations in the condominium subdivision business rose by 23.8%, or ¥15,661 million, year on year to ¥81,574 million.

In the other real estate businesses including development projects, revenues from operations increased 13.8%, or ¥5,857 million, year on year to ¥48,154 million. This was mainly due to the completion of the Rebuilding of Umeda Hankyu Building Project, the grand opening of the Hankyu Department Store Umeda Flagship Store in November 2012 and the opening in August 2012 of the Shin-Osaka Hankyu Building (Yodogawa-ku, Osaka), which is directly connected to Shin-Osaka Station.

As a result, revenues from operations in the real estate business overall increased 11.7%, or ¥20,597 million, year on year to ¥196,711 million, and operating income rose 27.0%, or ¥7,861 million, to ¥36,994 million.

*Condominium unit sales in previous year (fiscal 2012): 1,210
Condominium unit sales in year under review (fiscal 2013): 1,548
Note: Number of condominiums sold (number of deliveries) includes units in shared buildings in which only a portion of the units are subdivisions for sale.


Shin-Osaka Hankyu Building


Geo Tower Takatsuki Muse Front


HAPIA Garden Itayado/Kobe Yamanote

Major Rental Properties

Property Name	Location	Completed	Leasable Area* (m^2)	Use
Umeda Hankyu Bldg.	Kita-ku, Osaka	2012	213,147	Department stores (Hankyu Department Store), Offices
Dai Hanshin Bldg.	Kita-ku, Osaka	1963	98,578	Department stores (Hanshin Department Store)
Umeda Hanshin Daiichi Bldg. (HERBIS OSAKA)	Kita-ku, Osaka	1997	81,634	Commercial facilities, Multifunctional convention hall, Offices, Hotels (The Ritz-Carlton, Osaka)
Umeda Hanshin Daini Bldg. (HERBIS ENT)	Kita-ku, Osaka	2004	54,787	Commercial facilities, Offices, Theatre (Osaka Shiki Theatre)
Hankyu Chayamachi Bldg. (Applause Tower)	Kita-ku, Osaka	1992	52,074	Offices, Commercial facilities, Hotel (Hotel Hankyu International)
Hankyu Sanban Gai Shopping Centre	Kita-ku, Osaka	1969	40,982	Commercial facilities
Hankyu Grand Bldg.	Kita-ku, Osaka	1977	36,023	Offices, Commercial facilities
Shin Hankyu Bldg.	Kita-ku, Osaka	1962	32,962	Offices, Commercial facilities
Hankyu Terminal Bldg.	Kita-ku, Osaka	1972	26,615	Offices, Commercial facilities
Navio Hankyu (HEP NAVIO)	Kita-ku, Osaka	1980	15,711	Commercial facilities
Kita Hankyu Bldg.	Kita-ku, Osaka	1971	13,356	Offices, Commercial facilities
Hankyu Five Bldg. (HEP FIVE)	Kita-ku, Osaka	1998	12,613	Commercial facilities
Umeda Centre Bldg.	Kita-ku, Osaka	1987	10,191	Offices, Commercial facilities
NU chayamachi PLUS	Kita-ku, Osaka	2011	3,021	Commercial facilities
Noda Hanshin Bldg. (WISTE)	Fukushima-ku, Osaka	1992	31,630	Commercial facilities, Offices
Fukushima Hanshin Bldg.	Fukushima-ku, Osaka	1987	21,764	Offices
Shin-Osaka Hankyu Bldg.	Yodogawa-ku, Osaka	2012	24,240	Hotel (REMM Shin-Osaka), Offices, Commercial facilities
Sannomiya Hanshin Bldg.	Chuo-ku, Kobe	1933	13,672	Department stores (SOGO)
Motomachi Hanshin Bldg.	Chuo-ku, Kobe	1987	7,865	Outside horse-racing ticket booth
Kobe Hankyu Bldg.	Chuo-ku, Kobe	1936	7,658	Commercial facilities
Hankyu Nishinomiya Gardens	Nishino miya, Hyogo	2008	108,215	Department stores (Hankyu Department Store), Commercial facilities
EBISTA Nishinomiya (Commercial facility under elevated railway tracks)	Nishinomiya, Hyogo	2003	10,359	Commercial facilities
Itami Hankyu Station Bldg. (Itami Reita)	Itami, Hyogo	1998	11,800	Commercial facilities
Hankyu Kawaramachi Bldg.	Shimogyo-ku, Kyoto	1974	38,237	Department stores (Takashimaya)
Kotocross Hankyu Kawaramachi	Shimogyo-ku, Kyoto	2007	2,979	Commercial facilities
Katsura Higashi Hankyu Bldg. (MEW Hankyu Katsura)	Nishigyo-ku, Kyoto	1993	2,915	Commercial facilities
TX Akihabara Hankyu Bldg. (AKIBA TOLIM)	Chiyoda-ku, Tokyo	2008	10,297	Hotel (REMM Akihabara), Commercial facilities

* Leasable area does not include areas for public use.

Entertainment and Communications

Major Businesses

- ☐ Sports business:
  Professional baseball business (the Hanshin Tigers) and Hanshin Koshien Stadium, and related businesses
- ☐ Stage businesses:
  Takarazuka Revue and related businesses, operation of Umeda Arts Theatre and promotion of stage productions
- ☐ Communication and media businesses:
  Cable television business, information technology services, etc.
- ☐ Leisure businesses:
  Facilities on top of Mt. Rokko, and other leisure businesses

Snapshot

Performance in FY2013

Revenues from Operations
¥108.6 billion (+6.2%)

Operating Income
¥12.6 billion (+24.1%)

Priority Issues

1 Maximise the value of the Hanshin Tigers, Koshien and Takarazuka brands

- Improve the appeal of live events
  (create superior attractions, train and acquire star talent, and increase the appeal of our live-event venues)
- Broaden the fan base and improve customer retention
  (leverage Customer Relationship Management, strengthen promotion through external media, undertake initiatives based on the Takarazuka Revue's centennial in 2014)
- Create value chain of live events, media, and secondary contents
  (enhance the appeal of established media, broaden the range of media channels)

2 Stable growth of the communication and media business

- In the cable television business, enhance community-based services and gain customers by boosting product competitiveness
- In information technology businesses, focus on promising long-term growth areas and expand businesses in the Tokyo metropolitan market

3 Leverage our leisure facilities (facilities on top of Mt. Rokko)

- Enhance the attractiveness of Mt. Rokko and its customer-drawing power by taking advantage of facilities that bring together its natural, scenic and various other attractive features

Key Facts and Business Environment

Two attractions enhancing Group brand value

According to the Ministry of Internal Affairs and Communications Statistics Bureau's Family Income and Expenditure Survey, recreational service expenditure of total household in 2012 (real terms) rose 2.7% year on year, the first increase in three years.

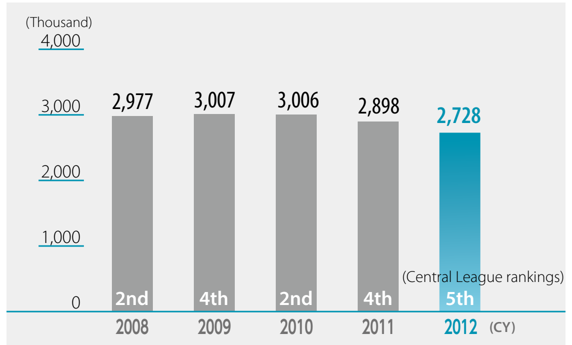
Despite being seen as recession proof given its relatively weak correlation with economic trends, it is more apparent than ever that the live entertainment industry has become polarised due to a greater interest in only a few attractions and fierce competition in other areas.

Despite these headwinds, our unique Hanshin Tigers and the Hanshin Koshien Stadium, and Takarazuka Revue brands retain their popularity and passionate fan bases all over Japan, and the games and shows continue to draw crowds. These two powerful brands are assets that none of our rivals can match and form a proprietary core strength of the Group, contributing significantly to Group brand value.

We will work to maximise the Group's brand value by pursuing high-quality performances that deliver inspiration and dreams to our customers.

Hanshin Tigers and the Hanshin Koshien Stadium

■ Total Attendances at Hanshin Tigers Home Games



Of the professional baseball leagues in Japan, the Hanshin Tigers has both one of the longest histories and a bedrock of fans not only in their home area, Kansai, but also across Japan. Attendances at home games in the Pennant Race have been the largest in Japan for seven consecutive years until 2011. The Hanshin Tigers were the only one of the 12 professional baseball teams in Japan to register total attendances of over 3 million people in the 2005-2007, 2009 and 2010 seasons.

Opened in 1924, the Hanshin Koshien Stadium is a sports venue of considerable historical value. Known as the home ground of the Hanshin Tigers and also the home of the spring and summer high school baseball championships, it now also hosts major events such as the Koshien Bowl (annual American college football final) and open-air concerts.

In the spring of 2010 we completed a renovation of the Stadium, which had been undertaken in three phases starting in autumn 2007. The works included seismic reinforcement, replacement of the "silver umbrella" roof cover and floodlighting, installation of new seating and refurbishment of food and drink outlets, resulting in a more safe and comfortable spectator space that generates improved earnings.

Takarazuka Revue

Performances are given all over Japan by the Takarazuka Revue, which is based at two main venues, the Takarazuka Grand Theatre (Hyogo Prefecture, 2,550 seats) and the Tokyo Takarazuka Theatre (2,069 seats). Repertoires span a wide range of Japanese and western material, including overseas musicals. Takarazuka Revue has made a name for itself for major individual musical and show productions that are performed throughout the year. In 2012, the troupes gave over 450 performances at both its main theatres, in front of a total of approximately 2.5 million people during the year, including troupe tours of venues nationwide.

Takarazuka Revue performs in Taiwan for the first time

In April 2013, the Takarazuka Revue performed in Taiwan. Although it boasts an overseas track record of 17 countries spanning back before World War II, this marks the first time ever that the Takarazuka Revue has performed in Taiwan. To date, overseas performances were by government invitation to promote friendly relations. Expanding beyond this, the Taiwan performance enabled the Takarazuka Revue to accumulate the knowhow required to perform in new regions, taking it upon themselves to secure a venue, sell tickets and engage in marketing activities that include television commercials. Accordingly, the Taiwan performance was positioned as a preliminary step to further expand the Takarazuka Revue's activities throughout Asia. With approximately 18,000 people in attendance, the Taiwan performance was sold out throughout its nine-day, 12-show run, coming to a close as an overwhelming success.

Musical entitled *Chu Liuxiang*, based on a popular Taiwanese mystery novel

Performance for the Fiscal 2013

Revenues and earnings increased mainly due to steady performance in the sports and stage businesses as well as the contribution from consolidation of Himeji Cable Television Co., Ltd.

In the sports business, decreases in Hanshin Tigers regular season home games (from 74 in fiscal 2012 to 70 in fiscal 2013), lower attendance figures and other factors caused revenues from operations to fall 4.6%, or ¥1,076 million, year on year to ¥22,374 million. This result occurred, despite the Tigers' fan base and our measures to make the most of the Hanshin Koshien Stadium by leveraging food, drink and merchandising outlets and fan-oriented services through special event programmes as well as the favourable ratings we have received for our newly developed food and drink menu.

In the stage business, the stage revue business had notable successes with productions at the Takarazuka Grand Theatre and Tokyo Takarazuka Theatre of *Versailles no Bara — Oscar to Andre* (La Rose de Versailles — Oscar and Andre), performed by the Tsuki (Moon) troupe, and the Yuki (Snow) troupe's farewell performance of *JIN* and *GOLD SPARK!*. These productions commemorate the Takarazuka Revue's centennial year, which extends throughout 2013 and 2014. In the theatre business, we put on a variety of highly topical productions that received favourable reviews, including *Elizabeth Special Gala Concert* at Osaka's Umeda Arts Theatre and Tokyo's Tokyu Theatre Orb, and features the previous cast of the Takarazuka Revue's *Elizabeth*. As a result, revenues from operations in the stage business increased 9.5%, or ¥2,442 million, year on year to ¥28,235 million.

The communication and media and other businesses in this segment began offering as part of their information technology services high-speed public wireless LAN services at retail facilities located along rail lines, including Hankyu Sanban Gai and HEP FIVE, as well as all stations at Hanshin Electric Railway, Nosé Electric Railway and Kita-Osaka Kyuko Railway. This service has also been gradually expanded to stations operated by the Hankyu Corporation. In the cable television business, subscriber numbers steadily grew mainly thanks to expanding mobile phone set menus and introducing discount plans for long-term contracts. In addition, Himeji Cable Television Co., Ltd. and YMIRLINK Inc. were added to the scope of consolidation. Consequently, revenues from operations in these businesses increased 8.7%, or ¥5,068 million, year on year to ¥63,407 million.

As a result, revenues from operations in the Entertainment and Communications Business overall improved 6.2%, or ¥6,294 million, year on year to ¥108,608 million, and operating income increased 24.1%, or ¥2,442 million, to ¥12,584 million.

Travel and International Transportation

Major Businesses

☐ Travel Business:
Hankyu Travel International Group (7 companies)　Total billings: ¥387.5 billion (No.2 in the industry)
* Total billings are Hankyu Travel International (non-consolidated) figures for fiscal 2013.

☐ International Transportation Business:
Hankyu Hanshin Express Group (24 companies)　Sales: ¥74.2 billion
* Sales are total of Hankyu Hanshin Express Group figures for fiscal 2013.

Snapshot

Performance in FY2013	Revenues from Operations	Operating Income
	¥70.8 billion (+4.8%)	¥4.4 billion (+40.0%)

Priority Issues

Travel Business

1. **Improve sales capabilities**
   - Strengthen product lineup, step up operations in Tokyo area, expand sales channels and promote cross-media strategies
2. **Raise customer satisfaction levels**
   - Rigorous quality and risk management
3. **Create fundamentals for stable earnings and enhance management resources**
   - Improve process efficiencies in back office/administrative departments
   - Develop diverse human resources

International Transportation Business

1. **Strengthen our marketing capabilities**
   - Further promote global sales, deepen involvement in the marine cargo/logistics business, effectively utilise marketing and investigate expanding services into new areas
2. **Expand networks in promising markets**
   - Expand networks in emerging markets
3. **Promote global management**
   - Develop diverse human resources and strengthen governance and risk management systems

Key Facts and Business Environment

Travel

Aim to achieve the highest customer approval ratings in the industry

Since the 1990s, the Group's travel businesses have focused on using newspapers and other media (mail-order and online sales) to market packages, which are organised under a stable of brands spearheaded by the mainstay Trapics marque. Billings for overseas travel, a particular strength, were the third-highest in Japan in fiscal 2013, and our position in the domestic travel sector is sixth. This business is growing steadily. We now place second overall in total billings in the travel sector in Japan.

The business environment is characterised by external factors such as economic and social trends, earthquakes and other natural disasters, risks to which the travel industry is particularly susceptible. Despite this, our travel business is working to maintain steady growth in both international and domestic operations by developing and quickly bringing to market products that leverage advertising-driven sales, a particular strength of Hankyu Travel International.

Looking ahead, we plan to broaden our lineup to satisfy increasingly diverse demands, aiming ultimately to achieve the highest customer approval ratings in the sector through a constant focus on safety, comfort and providing inspiration and dreams. We aim to attract still more customers by working together to provide high-quality travel services that truly meet customer wishes.

■ Total Travel Billings (FY2013)

Rank	Company name	¥ billion
1	JTB	1,446.7
2	Hankyu Travel International	387.5
3	Nippon Travel Agency	387.0
4	HIS	378.4
5	Kinki Nippon Tourist	327.8
6	Rakuten Travel	327.5
7	JTB World Vacations	247.8
8	ANA Sales	203.5
9	JALPAK	169.0
10	Club Tourism International	153.0

■ Overseas Travel Billings (FY2013)

Rank	Company name	¥ billion
1	JTB	507.4
2	HIS	348.6
3	Hankyu Travel International	257.6
4	JTB World Vacations	247.8
5	Nippon Travel Agency	138.6
6	Kinki Nippon Tourist	117.3
7	JALPAK	68.7
8	Club Tourism International	52.4
9	NIPPON EXPRESS TRAVEL	49.1
10	Travel Plaza International	45.3

■ Domestic Travel Billings (FY2013)

Rank	Company name	¥ billion
1	JTB	907.4
2	Rakuten Travel	309.3
3	Nippon Travel Agency	237.2
4	Kinki Nippon Tourist	201.1
5	ANA Sales	179.4
6	Hankyu Travel International	129.5
7	Club Tourism International	100.5
8	JALPAK	100.4
9	JR TOKAI TOURS	81.5
10	Top Tour	78.3

Source: Japan Tourism Agency Bulletin : Business Volume for Major Travel Agents (April 2012 to March 2013)
* Billings are rounded down to the nearest ¥100 million.

International Transportation

Aim to be an innovative logistics provider by consistently offering original value worldwide

Even compared with other Japanese freight forwarding companies, which are strong players in the global distribution sector, the Hankyu Hanshin Group's international transportation business has led rivals in marine transportation and logistics to create a framework that optimises our customers' supply chain management. We are a total provider of logistics management systems, capable of handling multiple transportation modes from bases all over the world. By using advanced information technologies, we have built up an infrastructure capable of meeting the increasingly sophisticated logistics needs of our customers.

We are currently confronted by strong demands to rapidly adapt to changing and diversifying business conditions, including the rise of globalisation and emerging markets. At the same time, we are entering a new phase in which we must answer the key questions: how do we prevail over global competition and what can be done to maintain continuous growth while contributing to society?

Under these circumstances, we will build a system for consistently providing total solutions. To this end, we are positioning fiscal 2014 as the first year of our innovation initiatives, promoting global management, optimising our business portfolios, strengthening our business foundation and meeting the diverse needs of customers.

■ Number of offices: 34 domestic/96 overseas; Number of employees: 1,953 (as of 1st April 2013)

NORTH AMERICA
CHICAGO
ATLANTA
CINCINNATI
DALLAS
DETROIT
HOUSTON
LOS ANGELES
McALLEN
MEXICO CITY
NASHVILLE
NEW YORK
SAN DIEGO
SAN FRANCISCO
SAO PAULO
SEATTLE
TORONTO

EUROPE & MIDDLE EAST
FRANKFURT
DUSSELDORF
PRAGUE
LONDON
AMSTERDAM
ROTTERDAM
BRUSSELS
PARIS
MILAN
VIENNA
DUBAI
MOSCOW

EAST ASIA
BEIJING
SHANGHAI
GUANGZHOU
CHENGDU
CHONGQING
DALIAN
DONGGUAN
FUZHOU
HANGZHOU
NANJING
NINGBO
QINGDAO
SHENYANG
SHENZHEN
SUZHOU
TANGSHAN
TIANJIN
WUHAN
WUXI
XIAMEN
YANTAI
ZHENGZHOU
HONG KONG
TSING YI
TAIPEI
KAOHSIUNG
TAICHUNG

ASEAN
BANGKOK
CHIANG MAI
LAEM CHABANG
KUALA LUMPUR
BUTTERWORTH
JOHOR BAHRU
PASIR GUDANG
PENANG
PORT KLANG
SINGAPORE
MANILA
CEBU
JAKARTA
HANOI
BINH DUONG
HAI PHONG
HO CHI MINH
DELHI
BANGALORE
CHENNAI
MUMBAI

JAPAN & KOREA
SEOUL
BUCHEON
INCHEON
PUSAN
TOKYO
OSAKA
AICHI
CHIBA
FUKUOKA
GUNMA
HYOGO
ISHIKAWA
KAGAWA
KANAGAWA
KUMAMOTO
KYOTO
MIYAGI
NIGATA
OKAYAMA
SAITAMA
SHIGA
SHIMANE
SHIZUOKA

Performance for the Fiscal 2013

Although international transportation experienced sluggish logistics demand, the travel business recorded higher revenues and earnings thanks mainly to robust performance from Europe-bound tourists

Regarding our travel business, despite decreases in the numbers of tourists visiting China and South Korea beginning in early autumn, overseas travel operations experienced robust performance centred on Europe-bound tourists thanks to the creation of attractive vacation packages and aggressive marketing drives. In addition, domestic travel operations have been steadily recovering from the major impact of the Great East Japan Earthquake, which continued throughout the previous fiscal year. This was primarily attributable to the opening of the new tower, TOKYO SKYTREE, the impact of which drove up the number of tourists visiting the Kanto region. As a result of the above, revenues from operations in the travel business were up 14.3%, or ¥4,265 million, year on year to ¥34,086 million.

The international transportation business worked to strengthen systems able to provide high quality services to customers, including establishing new offices in Vietnam, Central and South America and other regions as well as enhancing its global network. Nevertheless, operating conditions remained severe due to weakness seen in worldwide logistics demand in light of the European economic recession, stagnant growth in China and other factors. Consequently, revenues from operations in our international transportation business decreased by 2.7%, or ¥1,013 million, year on year to ¥36,745 million.

As a result of the above, revenues from operations in the Travel and International Transportation Business increased by 4.8%, or ¥3,269 million, year on year to ¥70,840 million, and operating income rose 40.0%, or ¥1,269 million, to ¥4,441 million.

Hotels

Major Businesses

☐ Principal directly operated hotels:

Hotel Hankyu International [Number of rooms: 168; total capacity: 316]
Hotel new Hankyu Osaka [Number of rooms: 922; total capacity: 1,304]
Dai-ichi Hotel Tokyo [Number of rooms: 277; total capacity: 554]
The Ritz-Carlton, Osaka* [Number of rooms: 292; total capacity: 584]

* The Ritz-Carlton, Osaka is operated by the Ritz-Carlton hotel chain under the management of Hanshin Hotel Systems.

Snapshot

Performance in FY2013

Revenues from Operations
¥64.7 billion (+0.9%)

Operating Income
¥0.5 billion (previous fiscal year: -¥0.3 billion)

Priority Issues

1 Improve profitability of established hotels
- Improve appropriateness of management resource allotment and established growth strategies
- Invest appropriately in product value improvement
- Improve sales and productivity

2 Expand chain by opening new directly managed hotels
- Further develop the REMM brand
- Increase profit margins by focusing more on hotels specialising in lodging services

3 Expand businesses operated under franchise/management contracts
- Grow earnings at established hotels run under franchise, with chain headquarters providing operational services
- Run more hotels through franchises, leveraging chain operational know-how and brand image

Key Facts and Business Environment

One of the leading hotel groups in Japan

Since the opening of the Takarazuka Hotel in 1926, the Hankyu-Hanshin-Daiichi Hotel Group has been engaging in the management of various types of hotels as one of the leading hotel groups in Japan, with a total of 50 hotels and 10,445 guest rooms (as of 1st April 2013).

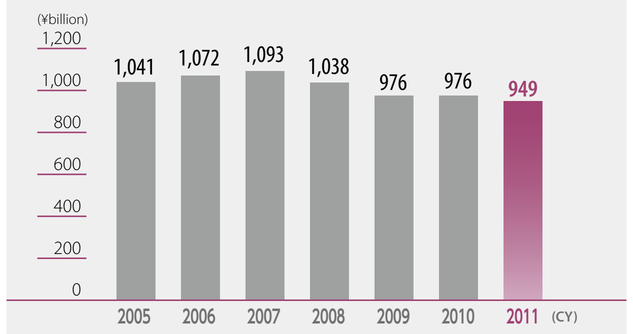
Conditions in the hotel market and our response

According to estimates by Japan Productivity Center*, Japan's hotel market continued to expand from 2003 through 2007 (based on sales). However, in 2009 and 2010, room demand slumped and the scale of the hotel market fell back to ¥976 billion, 10% below its peak in 2007. This was due to a decline in numbers of business-people visiting Japan after the global economic crisis following the collapse of Lehman Brothers in the autumn of 2008 and to weak leisure spending owing to the H1N1 flu scare in 2009. In 2011, the size of the market contracted further to ¥949 billion due to sluggish demand in the aftermath of the Great East Japan Earthquake and subsequent nuclear accident.

To respond to this challenging environment, we undertook renovation focusing on Hotel Hankyu International and Kichijoji Dai-Ichi Hotel to meet customer needs. In addition, we are implementing various measures to boost competitiveness, including selecting locations and eliminating unprofitable hotels.

* White Paper on Leisure, fiscal 2013 edition, published by Japan Productivity Center

■ Size of the Hotel Market in Japan



Performance for the Fiscal 2013

Revenues increased and returned to profitability mainly due to a recovery in demand, which had been impacted in fiscal 2012 following the Great East Japan Earthquake

In the Hotels Business, demand steadily recovered despite being sluggish during fiscal 2012 in the aftermath of the Great East Japan Earthquake. Under these circumstances, we opened the fourth REMM hotel, REMM Shin-Osaka, in September 2012—which prioritises a good night's sleep over other services—as a new business base. In addition, we undertook measures to maintain and increase earnings. These include the Takarazuka Hotel opening a restaurant in *Bimi Shunsai* Dining and Bar on the 12th floor of the Umeda Flagship Store of Hankyu Department Store, newly opened in November 2012, as well as undertaking renovations concentrating on the Kichijoji Dai-Ichi Hotel's lobby and guest rooms. We have also embarked on an aggressive marketing drive that included selling various commemorative plans to mark the 15th anniversary of the opening of The Ritz-Carlton, Osaka in May 2012 and the 20th anniversary of the Hotel Hankyu International in November 2012.

As a result, revenues from operations in the Hotels Business increased 0.9%, or ¥607 million, year on year to ¥64,697 million, while operating income improved by ¥794 million from an operating loss recorded in the previous fiscal year to ¥525 million.

Retailing

Major Businesses

☐ Retail: Hankyu Retails Corporation, Book 1st. Corporation

Convenience store chain *asnas*, station kiosk chain Lagare shop, high-end supermarket chain Seijo Ishii*, cosmetics chain COLOR FiELD, the furniture and daily accessories chain DOUBLEDAY, the Cleduple cosmetics and accessories store with powder rooms, the general accessory store a.d.r.e.s., bookstore chain Book 1st., etc.

* Seijo Ishii is operated under a franchise agreement with Seijo Ishii Co., Ltd.

Snapshot

Performance in FY2013	Revenues from Operations	Operating Income
	¥53.3 billion (-1.1%)	¥1.4 billion (+4.1%)

Priority Issues

1. **Strengthen the competitiveness of each retail format**
   - Deepen the specialisation and build up the brand of each retail format
   - Consolidate and improve current earnings levels at established stores and expand the business through store openings and refurbishments
2. **Develop formats to drive future business growth**
3. **Create a more efficient operating model for back-office administration**

Key Facts and Business Environment

Retailing formats located inside and near stations

The Group's Retailing Business is mainly focused on stores inside and near station buildings (*Ekinaka*, *Ekichika*). Outlets and operators include station kiosks such as Lagare shop, the convenience store chain *asnas*, and formats run with partners. We also operate the general merchandise formats COLOR FiELD and DOUBLEDAY. We are extending these businesses beyond areas served by our lines and boosting their brand power and competitiveness.

An *asnas* convenience store in Umeda Hankyu Building

Expand Urban Transportation as an integrated business

Many of the retail formats and stores run by the Group's Retailing Business can expect comparatively stable sales revenues, thanks to their location within stations and their wide range of businesses. These have been strengths of the Group's operations. However, our station-based retailing operations will continue to face difficult conditions. A long-term increase in train use is unlikely amid with rising numbers of senior citizens and a lower birth rate. In addition, the number of in-station shops at other railway operators is on the rise, forcing our partner companies to be more rigorous in site evaluation.

Against this backdrop, the Group is taking measures to strengthen competitiveness and improve business efficiency in each retail format. In order to make our stations pleasanter places for customers to frequent, we are also improving the appeal of our stations and retail outlets mainly through major renovations of in-station stores at the Hankyu Umeda Station, Hankyu Corporation's largest terminal.

From fiscal 2014 onward, we will eliminate the core Retailing Business and transfer its operations to the core Urban Transportation Business in order to strengthen stores inside and near station buildings as well as further increase the value of Group railway lines. Promoting the expansion of Urban Transportation as an integrated business, we will continue building on our previous initiatives (including the retention of consumption along Group railway lines and offering a diverse array of stores to reinvigorate and improve the attractiveness of our railway lines). In addition, we will enhance the attractiveness and competitiveness of facilities inside and near stations, starting with the continually developing Umeda area.

The Book 1st. bookstore chain was sold to an outside company on 1st April 2013.

Performance for the Fiscal 2013

Increased earnings based on cost reductions, despite decreased revenues mainly due to business restructuring in certain areas

In store strategy, we undertook renovation work to boost the competitiveness of existing stores. In addition, we continued actively working to enhance our store network, including opening a new *asnas* convenience store on the first basement floor of the Hankyu Sanban Gai shopping centre (Kita-ku, Osaka) and two Cook Deli Gozen shops (which sell delicatessen items), one at Suminodo (Daito City, Osaka Prefecture) and one at Kishiwada CanCan (Kishiwada City, Osaka Prefecture).

As a result, revenues from operations in the Retailing Business decreased 1.1%, or ¥600 million, year on year to ¥53,253 million. However, operating income increased 4.1%, or ¥54 million, to ¥1,387 million primarily thanks to efforts to curb costs.